Fiscal Note 2011 Biennium

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Bill #	SB0459		**Title:**	Repeal capital gains tax credit
Primary Sponsor:	Erickson, Ron		**Status:**	As Introduced

- ☐ Significant Local Gov Impact
- ☐ Included in the Executive Budget
- ☐ Needs to be included in HB 2
- ☐ Significant Long-Term Impacts
- ☐ Technical Concerns
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2010 Difference	FY 2011 Difference	FY 2012 Difference	FY 2013 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
Revenue:				
General Fund	$36,552,000	$32,419,000	$36,106,000	$39,708,000
Net Impact-General Fund Balance:	$36,552,000	$32,419,000	$36,106,000	$39,708,000

Description of fiscal impact: This bill would repeal the income tax credit for 2% of capital gains income. This would increase general fund revenue by $36.6 million in FY 2010 and would grow to an increase of $39.7 million in FY 2013.

FISCAL ANALYSIS

Assumptions:

1. Under current law, taxpayers with capital gains income are allowed a credit against their individual income tax liability equal to 2% of their capital gains. This essentially taxes capital gains at a rate 2% lower than other income. This bill would eliminate this credit.
2. The income tax revenue estimating model was modified by setting the capital gains credit to zero beginning with tax year 2009. The modified model was run using the HJR2 assumptions for growth of return line items, inflation, and population growth. The following table shows the resulting change in tax liability, in millions of dollars, for tax years 2009 through 2013:

Tax Year	Change in Tax Liability ($ million)
2009	$28.68
2010	$31.51
2011	$35.16
2012	$38.95

3. For some taxpayers, their capital gains during a year are unpredictable, and are not known until the end of the year. For these taxpayers, the change in tax liability would affect general fund revenue when they file their tax returns and either make larger payments or receive smaller refunds. For other taxpayers, the capital gains they realize during a year are under their control and are predictable. These taxpayers would be likely to change their estimated payments to account for the increase in tax liability. However, they would be unlikely to make the change the first year this bill would be in effect.
4. This fiscal note assumes that, for tax year 2010 and following years, half of the additional revenue will show up as increased estimated payments spread evenly over the year, and half will show up when taxpayers file returns after the end of the year. Thus, one-quarter of the revenue increase for each tax year will occur in the same-numbered fiscal year, and three-quarter will occur in the next fiscal year. For tax year 2009, the revenue increase will all be in FY 2010. The following table shows the allocation of tax year liability increases to fiscal years:

Tax Year	FY2010	FY 2011	FY 2012	FY 2013
2009	$28.68			
2010	$7.88	$23.63		
2011		$8.79	$26.37	
2012			$9.74	$29.21
2013				$10.50
Total	$36.55	$32.42	$36.11	$39.71

5. This bill would eliminate two lines from the income tax return and approximately one-quarter of a page of instructions from the income tax booklet. Changes to income tax forms and instructions would be made as part of the annual update process with no additional cost. If the changes allowed the booklet to be a page shorter, there would be some cost savings. Changes to the Department of Revenue's data processing system would be done by the software vendor as part of the annual maintenance contract, and testing would be done by department employees. There would be no additional monetary cost, but resources would be taken away from other tasks.

	FY 2010 Difference	**FY 2011 Difference**	**FY 2012 Difference**	**FY 2013 Difference**
Fiscal Impact:				
Revenues:				
General Fund (01)	$36,552,000	$32,419,000	$36,106,000	$39,708,000
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$36,552,000	$32,419,000	$36,106,000	$39,708,000

Long-Term Impacts:

1. The additional revenue from this bill will grow over time but will vary from year to year with capital gains income.

Sponsor's Initials | *Date* | *Budget Director's Initials* | *Date*